

INTRODUCTION

The Mortgage Banking Chapter consists of this Overview Section and sections on profitability, accounting, production, secondary marketing, and servicing. These sections are designed to be used together for a comprehensive review of all mortgage banking operations or on a stand alone basis to examine individual areas. Commercial mortgage banking is not discussed because it is a specialized high-risk activity that is generally limited to a relatively few mortgage banking firms. Multifamily lending, however, is generally considered residential and almost all of the material in this Chapter is applicable.

Each section of the Mortgage Banking Chapter is accompanied by its own set of examination procedures that embody the risk-focused examination approach. Consistent with this approach, the procedures have been tiered into two levels. The level of procedures performed during an examination will depend on the types of mortgage banking activities conducted by the thrift, its subsidiaries, and, in some cases, its affiliates. Because of the rapidly changing mortgage banking industry, no set of procedures can cover all of the risks involved for thrifts. Therefore, regulators are urged to look closely at new mortgage banking activities and practices that may pose direct or hidden risks and tailor the examination to those activities that may present material risk to the thrift.

This Overview Section describes the basics of mortgage banking, its terminology, the major areas of risk, common errors made by thrifts, the most common regulatory problems, and characteristics of successful and unsuccessful mortgage banking operations. General management issues are also discussed.

Mortgage Banking Basics

Mortgage banking is the origination, sale, and servicing of mortgage loans (mortgages) secured by either residential or commercial real estate. Mortgage bankers are best described as being financial intermediaries, which bring a variety of

mortgage services to consumers that are funded by investors. They efficiently move capital from surplus areas to their customers by means of pooling similar mortgages for sale in a mortgage-backed security (MBS). (See Section 542, Mortgage-Backed Securities.) During the period between locking in an interest rate to a borrower and selling the closed mortgage in the secondary market the mortgage banker is subject to an enormous amount of interest-rate risk (IRR). This IRR is the primary risk of mortgage banking, but by no means the only risk.

The mortgage banking process begins with the mortgage banker borrowing short-term funds to make long-term residential mortgages to home buyers and existing homeowners. The mortgage banker then groups mortgages together (usually into pools) for sale to outside investors. The proceeds of the sale repay the short-term loan and starts the cycle all over again. Most mortgage bankers continue to service the mortgage even after the mortgage is sold. Servicing or loan administration consists of collecting the monthly payments, forwarding the proceeds to the investors who have purchased the mortgages, maintaining escrow accounts for payment of taxes and insurance, and acting as the investor's representative for other issues and problems.

Mortgage banking is much more complicated than the picture just described. A mortgage banking company is made up of several departments. Each department has its own set of investor rules, laws, and regulations it must follow. From origination to payoff, the mortgage banker must diligently maintain files for each mortgage. Each stage is carefully documented to:

- Obtain the information necessary to process the mortgage (application);
- Determine the risk of the applicant and market value of the property (processing, appraisal, and underwriting);

- Obtain the money and close the mortgage (closing and warehousing);
- Package and sell the mortgage to an investor (secondary marketing and shipping);
- Collect, record, and remit monthly mortgage payments to the investor (servicing or loan administration); and
- Foreclose and dispose of the property to pay-off the mortgage (foreclosure and property disposition).

Generally, thrifts not only originate and service mortgages for their own portfolios, but they also buy, sell, and service other mortgages for profit in any combination and volume, just as mortgage bankers do. Their origination programs often complement existing mortgage originations for their own portfolio. This makes the servicing operation more efficient due to the economies of scale that result from adding servicing from mortgage banking to portfolio servicing.

Mortgage bankers have become increasingly specialized in recent years. Due to the cyclical nature of mortgage finance, some real estate lending firms have changed the way in which they originate mortgages. Some have moved away from the full service aspect of the industry and have become experts at their specialty. These specialists generally operate in either origination or servicing.

Mortgage bankers that only originate mortgages are usually called correspondents or brokers. They concentrate on finding home buyers in need of financing, processing the application and other paperwork, sometimes funding the closing, and then selling the closed mortgage and servicing rights to an investor or servicing mortgage banker. In some cases, brokers perform only a sales function by bringing together borrowers and mortgage lenders. The low capital requirements necessary to enter and maintain one or a small number of branches, the accounting advantages for servicers to purchase mortgage servicing rights rather than originate them, and the personal independence from the large servicing organizations are the main reasons the broker and correspondent have emerged.

Servicing mortgage bankers, sometimes called wholesalers, concentrate on purchasing mortgages from brokers and other mortgage bankers, but they may also originate mortgages as do most thrifts. Wholesalers generally pool mortgages into MBSs guaranteed by FNMA, FHLMC, and GNMA and sell the resulting securities to private investors but retain the servicing rights. The fees from large volumes of servicing are their primary source of income for wholesalers. Servicing can be done on a recourse basis where the servicer retains the risk of mortgage default or a non-recourse basis which is much more common. (The capital requirements for recourse servicing make it undesirable for most thrifts.)

Full-service mortgage bankers not only originate and service their own mortgages, but they may also purchase mortgages from brokers or sell a portion of their originations or servicing. The various types of mortgage bankers are not always distinguishable, especially since most thrifts both originate and service their own mortgages. The important issues for examiners are: (1) how the strategy and operations of the mortgage banking entity match or conflict with the thrift's own strategy and operations for portfolio mortgages; and (2) what risks the thrift is taking compared to the net additional income from the mortgage banking activities.

Mortgage Banking Names

Types of Mortgages. There are three basic types of mortgages: FHA, VA, and conventional. FHA mortgages meet the requirements and are insured by the Federal Housing Administration (FHA), a part of the U.S. Department of Housing and Urban Development (HUD). VA mortgages meet the requirements of and are guaranteed up to a pre-set limit by the U.S. Department of Veterans Affairs, but only for veterans. The VA charges an origination fee, but no annual fee for mortgages up to 100% of the purchase price. The FHA charges an origination fee and a monthly fee known as monthly mortgage insurance premium (MMI or MIP). Conventional mortgages are usually uninsured, but may have private mortgage insurance (PMI) for the portion of the mortgage that exceeds some percentage loan to value (LTV) ratio, usually 80% LTV. Properties securing FHA or

VA mortgages must meet the rigid standards set by those agencies.

Federal National Mortgage Association (FNMA or Fannie Mae). FNMA was established in 1938 as a wholly owned government corporation for the purpose of buying FHA and VA mortgages. In 1968, Congress divided the agency into two entities. The Government National Mortgage Association (GNMA) remained as the wholly owned government corporation and FNMA emerged as a private profit making corporation with the public goal of promoting affordable housing by increasing the availability of FHA and VA mortgages. In 1970, Congress expanded FNMA's purchasing authorization to include conventional mortgages. In 1981, FNMA expanded into the guaranteed MBS market by securitizing conventional mortgages and in 1984 it launched its conventional multifamily program. It now buys conventional mortgages of all types under a variety of set and negotiated servicing requirements that include recourse and non-recourse servicing.

Although FNMA is a privately managed, shareholder-owned corporation, it continues to operate under a federal charter serving a public purpose. The contradictory roles of maximizing profits for investors while promoting affordable housing for the public are the source of many problems for both FNMA and its twin - FHLMC. This situation is aggravated by the fact that the U.S. Treasury Department has the authority to purchase up to \$2.25 billion of FNMA's debt, which is the basis for the implied guarantee of the U.S. Government for FNMA. This implied guarantee results in a AAA credit rating thus increasing the value of FNMA MBSs and lowering its costs of borrowing. This and the economies of scale from its huge size virtually prohibit equal competition from private conduits, but the implied guarantee has never been tested or used. FNMA is called a government sponsored enterprise (GSE) and is supervised by the Office of Federal Housing Enterprise Oversight (OFHEO), a part of HUD. It is headquartered in Washington, D.C., and has regional offices in Philadelphia, Atlanta, Chicago, Dallas, and Los Angeles.

Government National Mortgage Association (GNMA or Ginnie Mae). GNMA was formed in 1968 when FNMA was split into two distinct entities. It was established as a corporation wholly owned by the U.S. Government within the Department of Housing and Urban Development (HUD) and remains so today. It was GNMA that first pooled FHA, Farmers Home Administration (FmHA), and VA mortgages and issued guaranteed MBSs backed by those pools. The reasoning was that since the federal government had already underwritten and guaranteed FHA, FmHA, and VA mortgages, GNMA could issue U. S. government-guaranteed MBSs backed by those mortgages at virtually no additional risk or cost to the government. The timely payment of principal and interest on a GNMA MBS is guaranteed by GNMA, but GNMA requires the servicer to advance their own funds to pay investors on time for all delinquencies. *Also, GNMA requires the servicer to pay all losses on FHA, FmHA, and VA foreclosures in its pools that are not paid by those agencies. These losses can be significant.*

The GNMA program has been copied in various ways, with great success by FNMA and FHLMC, as well as private conduits. GNMA operates under the general policy direction of the Secretary of HUD in Washington and its president is appointed by the U.S. President. All other positions are nonpolitical. GNMA has no branch offices and contracts out a lot of its work because it has very few employees.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). FHLMC was established in 1970 by the Emergency Home Finance Act. It helped boost the liquidity of thrifts by adopting GNMA's MBS program to the conventional mortgage market. In 1978, FHLMC's authority was extended to allow it to swap mortgages not only from thrifts but also from commercial banks and HUD approved mortgagees (mortgage companies). FHLMC's MBS is called a participation certificate (PC) to highlight a slight legal difference in how their securities are structured compared to GNMA's MBSs. For practical purposes, however, FHLMC's PC is created and its securities sold in basically the same way as GNMA's and FNMA's MBSs. The recent adoption by FHLMC's Gold PC of many of the

payment provisions of FNMA's MBS makes the two mortgage securities very similar.

FHLMC, like FNMA, is a privately owned and managed corporation chartered by the U.S. Government for the public purpose of promoting affordable housing through greater mortgage availability. It is also called a GSE and is supervised by OFHEO. It is head-quartered in Washington, D.C. with branch offices in Atlanta, Chicago, Dallas, Washington, D.C., and Los Angeles.

Private Conduits. As FNMA, GNMA, and FHLMC achieved dominant positions in the conforming mortgage market, private conduits arose to exploit profitable opportunities in areas where the agencies were not operating, be it by choice or preclusion by law. The single largest category of residential mortgages that FNMA, FHLMC, and GNMA can not purchase are those with unpaid principal balances exceeding their statutory limits as revised periodically by HUD. In 1972, when FNMA first purchased conventional mortgages, the limit was \$55,000; however, HUD has now raised that limit to \$203,150 for single-family loans.

Mortgages that exceed the statutory limits are referred to as jumbo mortgages, or more often, simply as jumbos. In many areas jumbos account for the majority of new originations, so they are a vital part of the mortgage marketplace. Until private conduits were established, thrifts relied on private investors to purchase jumbos directly. Such sales, however, were inefficient in providing the consistent underwriting and the large sales volumes needed. Today, private conduits provide consistent underwriting, purchasing, and funding for jumbo and other types of nonconforming mortgages. There are even efforts underway to establish uniform documentation for all nonconforming mortgages.

Sale and Servicing Agreements. These are contracts that are normally negotiated and signed by the buyer and seller to govern the terms of the mortgage sale and later the servicing. This contract also sets the servicing fees and any special conditions and warranties. Sale and servicing agreements are usually very long and complex because of the difficulty of providing for all types of

future servicing problems. The lack of such an agreement for any servicing package should be considered by examiners as a significant problem except for FNMA, GNMA, and FHLMC which are governed by their respective Guides.

Types of Servicing Rights. Servicing rights are divided into four categories for accounting purposes: (1) purchased mortgage servicing rights (PMSR), (2) excess servicing fee receivables (ESFR), (3) originated mortgage servicing rights (OMSR), also called retained or off-balance sheet servicing rights, and (4) subservicing for another owner of the servicing rights. The four types of servicing rights are more thoroughly discussed in Sections 573 and 576, Accounting and Servicing.

Other Definitions. Other important mortgage banking terms, functions, and areas are discussed in the appropriate mortgage banking sections that follow this Overview Section. Definitions of all mortgage banking terminology, agencies, and related items is also included in the Glossary at the end of this Handbook.

Mortgage Banking For Thrifts

Many thrifts have adopted mortgage banking activities as a profitable addition to portfolio mortgage lending. Already over two thirds of the thrifts in the country service some mortgages for other owners. By originating all or some of their mortgages for sale in the secondary market, thrifts can increase mortgage originations and servicing without increasing their IRR from long-term mortgages. While this increases operating expenses, it also generates fee income which can increase profits and reduce reliance on portfolio spreads for earnings.

The move into mortgage banking may present many difficulties for thrifts. While portfolio lending and mortgage banking have much in common, they are very different business disciplines and must be managed in very different ways. Management must understand the differences and manage the change carefully. Financial strategies and risk management policies must be designed for each specific type of lending operation in order to be effective.

Differences Between Thrifts and Mortgage Bankers

Thrifts often originate mortgages as investments for their own portfolios. Mortgage bankers, on the other hand, originate mortgages for sale to investors who normally pay the mortgage banker a fee to service the mortgage on the investor's behalf. The ultimate objective for most mortgage bankers is to build servicing income by acquiring a large and profitable servicing portfolio.

The types of mortgages offered by a thrift often are based on its investment needs and legal or regulatory requirements. If other mortgage types are offered to accommodate customers, the less desirable mortgages may be priced above market rates. Mortgage bankers, however, originate mortgages based on market demands and opportunities. The products offered by the mortgage banker must be competitive and attractive to the customer and the investors to whom the mortgages ultimately will be sold.

Secondary Marketing. Thrifts often sell mortgages that they do not want as investments, that exceed their investment needs, or to generate short-term profits. They also buy mortgages in the secondary market as investments when they cannot originate them. Thrifts are traditionally reluctant to pay standby commitment or hedging fees to investors because they reduce the profit on the sale of the mortgage or may even produce a loss.

The mortgage banker uses the secondary market continually to dispose of all mortgages originated. Continuous sales to investors, as well as forward commitments, are used by the mortgage banker to reduce the IRR of holding mortgages. They carefully manage their forward coverage (forward commitments from a mortgage buyer), pipeline (the mortgages in process), and warehouse (mortgages closed and awaiting sale) so that the mortgages can be sold on a break even or better basis. Most mortgage bankers, however, realize that breaking even will not be possible in every transaction, because interest rates are volatile and gains achieved under favorable conditions are usually offset by losses under poor conditions. Although some sales produce losses, they are often

necessary both to reduce the risk of holding the mortgages even longer, or to clear out the warehouse and make room for more profitable mortgages. Mortgage bankers try to break even on secondary marketing over time. They are not reluctant to pay commitment fees to lock in investor money to cover the mortgages in their pipeline.

The thrift and the mortgage banker are both subject to IRR, but the nature of those risks is somewhat different. The thrift suffers the IRR of any mismatch of assets and liabilities. The mortgage banker is subject to interest-rate movements that erode prices while the mortgages are in the pipeline or warehouse. A thrift that is originating mortgages both for portfolio and for sale is subject to both kinds of IRR.

Prepayment Risks. Prepayment risks are a form of IRR often linked to drops in interest rates. Thrifts usually are only concerned with the prepayment risk that their high interest-rate mortgages will payoff as interest rates drop. They generally are not concerned over any loss of servicing value since most thrifts do not view their portfolio servicing as a separate asset, and they have very little ESFR or PMSR assets that must be written down for unexpected prepayments. For mortgage bankers, on the other hand, all servicing is a valuable asset, even if it is off-balance sheet retained servicing, and usually represents their profit on the origination and sale of mortgages. Writing off those servicing assets for early prepayment or quarterly performing impairment tests and marking down both ESFR and PMSR to reflect unexpected prepayments can produce large losses.

In the origination area, mortgage bankers incur one other cost that is significantly different from a thrift's costs. Originators for mortgage banking companies typically are paid a commission out of the mortgage origination fee of each mortgage that they produce, but little or nothing if they do not produce. If a salary is paid at all by a mortgage banker, it is very low in comparison to the expected commission. Conversely, thrifts usually pay a straight salary to originators that is much less than the commissions paid by mortgage bankers. Unless thrifts match the compensation of mortgage bankers, they usually will not attract the best and most productive originators.

Mortgage Servicing. For most thrifts, mortgage servicing is viewed as an expense that reduces the total return on the portfolio. For a mortgage banker, however, servicing is an asset that is the single most important component of profitability and must be actively managed to be profitable and to retain its value. Servicing provides relatively stable earnings and servicing rights may be sold at a profit. To achieve long-term servicing profitability, however, the servicer must achieve the economies of scale that reduce costs and must maintain that scale by replenishing the portfolio with new servicing rights as the older ones pay off.

Except for recourse servicing, mortgage bankers usually do not suffer the loss of principal or interest when a mortgage defaults, but they may incur expenses to foreclose on and dispose of the property. They may also be liable to the investor for losses if the mortgage has not been properly underwritten or serviced. Sale and servicing agreements between thrifts often contain unusual conditions that mortgage bankers do not normally make such as guaranteeing a yield to the buyer. These agreements are usually in writing but can be verbal. Such agreements do not really transfer the risks and rewards of ownership and defeat many of the objectives of mortgage banking. Because such agreements retain all or part of the risks of loss, OTS considers them to be full or partial recourse servicing. (See Section 575, Secondary Marketing.)

Accounting Requirements. The accounting requirements to mark the mortgage warehouse to the lower of cost or market (LOCOM), to amortize purchased servicing costs and origination costs, and other requirements are often viewed by some thrift managers as undesirable consequences of mortgage banking operations. Most mortgage bankers, however, have come to view these accounting requirements as a critical discipline in the successful management of mortgage banking operations since they allow the accurate measurement of financial performance. (See Section 573, Accounting.)

Management and Supervision

Mortgage banking is comprised of several separate and interdependent activities. The efficiency

and profitability of the entire mortgage banking operation hinge on how well these activities are managed on an institution-wide and departmental basis. Senior management must define and communicate strategy, permissible activities, operational responsibilities, and acceptable risk for mortgage banking operations. Mortgage banking management should use this guidance from senior management to help develop written policies and procedures for each mortgage banking department.

Specific management tools should include a risk management program that is well defined and communicated to operating personnel. There should be a business plan that clearly states the specific objectives for the mortgage banking operation. The plan should be consistent with the thrift's business plan, as well as asset and liability management objectives. In addition, the plan should clearly state management's acquisition and sales strategies for mortgage origination and servicing. The lines of authority and assigned responsibilities should also be clearly described and there should be provisions for adequate financial, human, technological, and physical resources.

Because the disciplines and goals of mortgage banking operations differ from portfolio lending, thrifts should normally conduct mortgage banking in a separate department, division, or subsidiary. If the mortgage banking activities are done within the thrift, the cost accounting, management, employees, and other operations should be separate. Transfers of mortgages to the thrift's portfolio should be pre-planned investments that are carefully documented and the mortgage banking operation should be charged market rates for borrowings, office space, and management provided by the thrift.

To provide total separation and to shield the thrift from the risks of the mortgage banking operations, many thrifts segregate their mortgage banking operations by putting them into subsidiary corporations either as traditional service corporations or as operating subsidiaries. Each of these types of subsidiaries have various advantages. The primary difference between them is that an operating subsidiary is not subject to the same aggregate investment limitations as a service

corporation, but its operations are subject to the same rules and regulations as the parent thrift.

Whether in the thrift or a subsidiary, comprehensive information management systems are essential to a successful mortgage banking operation. These systems should provide accurate, up-to-date information on all functional areas. The reports produced should enable management to identify and evaluate operating results along with primary sources of risk, and prepare accurate financial statements. In addition, management should have procedures in place for monitoring compliance with regulatory and investor requirements.

If mortgage banking operations are in service corporations, operating subsidiaries, or affiliates within a holding company structure, it is essential that management set up and maintain separate corporate identities that can withstand a challenge in court. This requires separate officers, employees, offices, names, and appearance. Without such separation the protection that the thrift has from the risks of the subsidiary is effectively negated. Affiliates must also comply with transaction with affiliate regulations. All transactions between the thrift and its affiliates must be at arm's length, at market supported rates and terms, within quantitative limits, and clearly documented.

Common Problem Areas

Risks That Have Caused Thrift Failures

Each of the following general risk categories have been largely responsible for the failure of thrifts heavily involved in mortgage banking operations:

Pipeline Risk. The IRR from the time of locking in the interest rates on the mortgages in the pipeline until those mortgages are sold in the secondary market.

Prepayment Risk. The danger that servicing will pay off before estimated, leaving unamortized PMSR servicing release fee premiums or ESFR assets that must be partially or fully charged off. Rapid prepayments also reduce the amount of servicing fee income and the market value of OMSR or retained servicing.

Operational Cost Risk. The risk that servicing expenses will increase faster than anticipated and overwhelm fixed servicing income and create long-term losses.

Operational Flexibility Risks. (A) The risk of devoting a large percentage of resources to mortgage origination or servicing that cannot be shifted to other areas during cyclical downturns in those operations. (B) The risk of structuring operating costs with long-term fixed-rate cost commitments in facilities and personnel that cannot be reduced in periods of lower production volume in the same manner that variable cost structures can be reduced.

Liquidity Risk. The risk that an investor will pull servicing escrow and P&I custodial accounts from the thrift. This can cause a fatal liquidity crisis if those accounts are a large percentage of total deposits.

Common Mistakes of Thrifts in Mortgage Banking

Thrifts that shift to mortgage banking or add mortgage banking to their lending activities without recognizing the differences, often find increased rather than reduced risk, uneven performance, and an inability to measure profitability. The most typical mistakes are:

- Moving mortgages into the thrift's portfolio at par rather than selling them in the secondary market at a loss, or not marking mortgages held for sale down to the lower of cost or market;
- Holding mortgages intended for sale indefinitely because interest rates are low and the warehouse spread is large;
- Not having reporting systems that allow management to react quickly to the volatile changes in the secondary market;
- Using too little forward coverage to adequately protect against movements in interest rates;
- Failing to adequately separate portfolio lending and mortgage banking so the performance

of the two functions can be measured independently;

- Operating mortgage banking departments or subsidiaries at a profit margin insufficient to justify the increased risk of their operations;
- Servicing a small number of different types of mortgages for many investors without advance planning or efficient systems in place; and
- Failure by the board of directors to enforce clear policies that define the strategy and goals of the thrift and the mortgage banking operation and that limit IRR.

Regulatory Problems

In addition to the common mistakes made by thrifts in mortgage banking, the following are regulatory problems that OTS examiners have encountered most often in mortgage banking operations:

- Excessive amounts or overvalued ESFR or PMSR servicing assets;
- Not lowering the value of ESFR and PMSR on the balance sheet on a quarterly basis to reflect increases in prepayment speeds or not recording an accurate 10% reduction in value for regulatory capital purposes;
- Excessive unhedged and uncovered IRR in the pipeline or warehouse;
- Failure to balance or hedge large servicing portfolios with other investments; and
- Excessive reliance on mortgage banking originations as the primary source of income or excessive fixed investments in buildings, equipment, or personnel to adjust to cyclical downturns.

Important Areas in Examination Reports

The following are the areas of mortgage banking that examiners should be careful to address adequately in examination reports to allow supervisory personnel to understand the full scope and the potential impact of mortgage banking operations:

- The earnings and market value of OMSR or off-balance sheet retained servicing;
- The mortgage banking activities of service corporations, operating subsidiaries, and affiliates to reveal the effect and threat of those operations to the thrift; and
- The overall effect of mortgage banking operations on the thrift, both good and bad.

Characteristics of Thrifts That Have Failed From Mortgage Banking

- Highly leveraged operations where the origination and servicing operations were disproportionately large compared to a relatively small thrift.
- Large amounts of very aggressively calculated ESFR.
- Thrift investment portfolios that have sold most or all high interest-rate and ARM mortgages while retaining a large amount of below-market fixed-rate mortgages.
- Purchasing most servicing while selling retained or off-balance sheet servicing.
- Very aggressive accounting policies that tend to dictate mortgage operations.
- Lack of written and enforced policies governing mortgage banking operations.
- Little, if any, internal controls.
- No separation between the thrift's portfolio and mortgage banking activities.

Characteristics of Good Mortgage Banking Operations

- A good fit with the parent thrift in terms of both size and overall operations and strategies.
- Conservatively calculated and relatively small amounts of ESFR.
- Careful monitoring of the separate operations, costs, and risks of the thrift and the mortgage banking operation.

- Large percentage of the servicing portfolio consisting of OMSR or off-balance sheet retained servicing.
- Well thought out and enforced mortgage banking policies and internal controls that contain adequate safeguards.

Conclusion

Mortgage banking is the wave of the future for many risk averse thrifts seeking to add a fee generating business that is compatible with traditional thrift operations. This is in contrast to the speculative approach adopted by many thrifts that have failed due to overly aggressive and imprudent mortgage banking strategies. Our job as

regulators is to encourage the good aspects of mortgage banking while ensuring that those operations are carried out without exposing the thrift to the pipeline IRR, prepayment, operational cost, operational flexibility, and liquidity risks that we have seen in previous thrift failures. Thrifts that do not control these risks, especially IRR, are not likely to be successful mortgage bankers in the long haul. A mortgage banking operation should not gamble. Instead, it is a business whose risks must be managed and controlled to produce consistent long-term profits without endangering the thrift.